



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

*Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555*

May 29, 2002

**TO:** Agency Directors

**FROM:** Marty Brown *mb*  
Director

**SUBJECT: NEW BUDGETING REQUIREMENTS FOR AGENCY SELF  
INSURANCE PREMIUMS IN THE 2003-05 BIENNIUM**

The purpose of this letter is to provide a summary of the new budgeting requirements for agency self insurance premiums and of other important changes in the risk management field. The letter's attachment includes a table with each agency's self insurance premium for the past, current, and upcoming biennia.

**Implementation of Risk Management Task Force's Recommendations**

As many of you are already aware, Governor Locke and Attorney General Gregoire co-sponsored a Risk Management Task Force in early 2001 to address the unprecedented increase in damages from tort lawsuits. The Task Force produced numerous recommendations aimed at better protecting the public, reducing loss and damages related to state services, and improving the state's risk management program.

Many of the Task Force recommendations were enacted through legislation passed during the 2002 Legislative Session. House Bill 2352 transferred the Office of Risk Management to OFM to establish statewide risk management responsibility at the highest levels in state government. Engrossed Substitute Senate Bill 6428 gave the OFM Director the authority to appoint a Loss Prevention Review Team when the death of a person, serious injury to a person, or other substantial loss is alleged or suspected to be caused at least in part by the actions of a state agency. Finally, Senate Bill 6249 allows agencies to express regret to victims without that expression being used against the state in a lawsuit.

The transfer of the Office of Risk Management (ORM) to OFM will be implemented by July 1, 2002. The transfer of ORM to OFM will reinforce the ability of budget analysts and risk management analysts to work together to ensure appropriate emphasis is placed on risk management in agency 2003-05 budgets.



### **New Self Insurance Budgeting Instructions**

The Risk Management Task Force's recommendation that strategies be developed to increase visibility for risk financing will be implemented through the budget process. Specifically, an agency's self insurance premium will be uniquely coded as a distinct line item at either the maintenance or performance level, instead of being combined with revolving fund adjustments. This change will necessitate that agencies prepare maintenance or performance level decision packages that address agency strategies to mitigate future losses.

The state's projected outstanding claims liability drives statewide self insurance biennial funding levels. A recent actuarial report indicates that the state's total outstanding claims liability as of the end of next biennium will be \$428.9 million dollars. The self insurance premium for the 2003-05 Biennium will need to include funding that will be sufficient to pay the actual amount of claims and defense costs that will be due during the 2003-05 Biennium. In addition, it is necessary to retain a portion of the premiums to serve as a reserve. The reserve amount sets aside funds for the future payment of costs related to current day operations. It also ensures that the state has sufficient dollars to pay actual claims and defense costs if they exceed actuarial projections. Agencies paid \$113.11 million in self insurance premium during the 2001-03 Biennium. The current assumption is that the self insurance premium paid by agencies will need to increase by \$59.89 million. The assumption for the 2003-05 Biennium's total self insurance premium is \$173 million. The following table provides an actuarial projection of the state's total outstanding claims liability at the end of the next four fiscal years.

**Estimated Total Outstanding Liability (Millions, Rounded)**  
**With Excess Coverage**

Fiscal Year	Claim Liabilities
2002	\$259.4
2003	\$310.5
2004	\$366.7
2005	\$428.9

Total outstanding claims liability is the total dollar amount needed over time to resolve all unpaid claims from all accidents resulting from state operations through a given date, regardless of whether the claim has actually been filed. For example, the most recent actuarial study estimates total outstanding liabilities of \$259.4 million as of June 30, 2002. This includes claims that may come in at a later time relating to an incident prior to June 30, 2002. If the state were to cease operations on June 30, 2002, the actuary projects that it would take \$259.4 million to ultimately satisfy all liability claims. There are three major components of the total outstanding claims liability estimate: cost of reported claims, cost of claims not yet reported, and the cost of future development of reported claims.

The placement of the self insurance premium at either the maintenance or performance level of an agency's budget is designed to enhance oversight of agency loss trends and to improve strategies to mitigate future losses. Agencies whose past and future loss experience are the primary driver of their premium increase will be required to prepare a performance level decision package. Agencies with less frequent and severe losses will complete a maintenance level decision package.

OFM budget and risk management staff jointly developed and employed five criteria used to determine which agencies will be required to prepare a performance level decision packages. The five criteria are as follows:

- Premium increase of greater than \$100,000
- Total premium greater than \$300,000
- Premium increase of greater than 100 percent
- Greater than average loss experience
- Claims Payout/Premium ratio greater than 75 percent

Agencies that meet at least two of the criteria are required to complete a performance level decision package. Attachment A-1 depicts agencies' 2003-05 Biennium self insurance premiums, and the budget level of the decision package that each agency must prepare.

### **Risk Management Resources Available to Agencies**

The new risk management/self insurance premium budget instructions (Section 12, Operating Budget Instructions, Part 2, Decision Packages and Other Submittal Requirements, 2003-05 Biennium), explain requirements for completing a maintenance and performance level decision package. Prior to developing your maintenance or performance level decision packages, it is recommended that an agency review the Governor's Risk Management Executive Order 01-05, the agency's loss history profiles provided by ORM, the agency's pending claims, and ORM's web site at <http://www.ga/wa/gov/risk.htm>. From this review, agencies should prepare updated goals, objectives, and performance measures, and incorporate them into the agency strategic plan and balanced scorecard.

Throughout this process, the Office of Risk Management staff is available to assist you with interpreting loss trends and developing risk management goals. Your primary contact is ORM Loss Prevention Manager, Jolene Bellows, 902-7312. The OFM website, <http://www.ofm.wa.gov/insurance/insurance.pdf>, is devoted to providing answers to frequently asked questions about the Self Insurance Liability Program and self insurance premium.

Attachment

Appendix A-1, 2003-05 Biennium Agency Self Insurance Premium